

**Testimony: House Bill 5397, City of Holland Retrofit Legislation  
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Terri Schroeder, Operations Manager, Michigan Saves, Inc.

Good morning, Chairman Nesbitt and fellow members of the committee. I am Terri Schroeder, operations manager of Michigan Saves, Inc. Michigan Saves is a nonprofit dedicated to making energy improvements easier for all Michigan energy consumers. To accomplish this, Michigan Saves makes affordable financing and other incentives available through grants and partnerships with private sector lenders. We also authorize and monitor a network of contractors and recognize those with advanced training. Our current portfolio includes programs for residential, commercial, and municipal customers, and supports energy efficiency, geothermal, and solar PV projects.

I want to thank Representative Haveman for his leadership in introducing this bill and appreciate the opportunity to testify on behalf of Michigan Saves. House Bill 5397 is a great first step, but Michigan Saves would like to offer the following comments:

- **Program administration:** As written (page 6, line 16), the bill only allows nonprofits formed under the Home Rule c=Cities Act to administer residential clean energy programs. This restriction is too narrow and unnecessary. Municipalities have the authority to form nonprofits to carry out public purposes and can contract for services, so our recommendation is to not stipulate that programs can be administered only by nonprofits formed under the home rule act. Rather, leave it to the municipality to determine what type of entity is best to administer the program.
- **Use of utility capital for loans:** As this bill contemplates the use of utility capital for the loans (page 6, line 20), we recommend the addition of a section that explicitly authorizes the use of utility capital for these loans, given the ambiguity created by MCL 460.6c, which states that utilities can't make loans. Further, given that there are limitations on the cost of capital charged by utilities, it might mean that rates on utility capital could be far too high.
- **Loan rates:** The bill stipulates that interest rates may not exceed 7 percent (page 7, line 1). Because rates need to be flexible in order to respond to market conditions and borrower risk, we recommend not stipulating the rates in legislation. For example, if a community wanted to serve residents with riskier credit, the rates may need to be higher, so locking a rate into the legislation will limit flexibility. Additionally, if the nonprofit receives its capital from a private lender and interest rates go up, 7 percent may not be realistic, yet it would require an act of the legislature to continue the program. We suggest adding a clause stating "rates and terms should be more favorable than what is available in the market for similar loans."
- **Payment delinquency and partial payments:** We recommend some clarification around the issue of payment delinquency, particularly partial payments. As written (page 7, line 9), the bill states that payment delinquency will be handled according to MCL 141.121, but does not stipulate how partial payments will be handled (e.g., if the borrower's bill is \$90 for electricity and \$27 for the program upgrade services, and he sends in a check for \$20, does the

payment get applied to the utility bill or the loan?). We recommend that the bill stipulate how partial payments are applied.

- **Underwriting criteria in eligibility requirements:** The bill requires that loan eligibility requirements be included in the required proposed program report (page 8, line 7). We recommend that this include underwriting criteria, and that this be explicitly stated in the bill. To be clear, we are not recommending that the actual criteria be in the bill, but that the criteria be included in the proposed program report.
- **Loan terms:** The bill stipulates that loan terms be 120 months or the useful life of the measures being financed, whichever is less (page 9, line 6). While it is a good idea to attempt to ensure that the loan payments do not exceed the useful life of the energy project, this provision is too prescriptive and would end up constraining the program too much (see comment on loan rates above). We recommend softening this to say that efforts will be made to tie the term to the useful life of the improvements.
- **Audit requirement:** As future energy savings can be estimated without an audit, we recommend against the audit requirement now in the bill (page 9, line 16). If the community wants to require an audit as part of their program, it should be free to do so, but not required to do so. Local needs are diverse and the law should allow flexibility be flexible in order to meet those needs.
- **Program evaluation:** It would be advantageous to remove the requirement of Quality Assurance (QA) for each project (page 9, line 19). Requiring that QA be performed on each project will be costly, and could be redundant with other programs. For instance, if the on-bill program is through the municipal electric utility and a gas measure is part of the upgrade, there could be a gas rebate that triggers QA. A better solution would be to require QA on a percentage of each contractor's jobs, which is the system Michigan Saves uses.

These recommendations are based on our extensive experience financing energy efficiency projects that are very diverse in size, scope, and type of customer. We think that once these changes are adopted, the bill will be functional, flexible, and sustainable. Thank you for your time and your consideration. I am happy to answer any questions you may have.

Terri Schroeder  
Operations Manager  
734-545-3058

Michigan Saves  
230 N Washington Avenue  
Suite 300  
Lansing, MI  
48933